



100,000,000 Units
Each Unit consists of one Share of Common Stock and
one Redeemable Warrant to purchase one Share of Common Stock

THESE SECURITIES INVOLVE A HIGH DEGREE OF RISK
(See "RISK FACTORS")

Each Unit offered hereby consists of one share of Common Stock, \$.00001 par value ("Common Stock"), of Virtusonics Corporation (the "Company") and one redeemable Common Stock purchase warrant ("Warrant" or "Redeemable Warrant"). The Redeemable Warrant and share of Common Stock will not be separately transferable nor the Redeemable Warrant exercisable until October 14, 1986, or such earlier date as the Underwriter may determine but not earlier than July 14, 1986. Each Redeemable Warrant will be detachable and exercisable to purchase one share of Common Stock at an exercise price of \$.025 from the date first exercisable until October 14, 1987. There is no present market for the Units, Redeemable Warrants or Common Stock and no assurance can be given that one will develop. (See "RISK FACTORS" and "DESCRIPTION OF SECURITIES.")

See "RISK FACTORS" with respect to the method of determining the initial public offering price of the Units and exercise price of the Redeemable Warrants.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE
SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION
PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Commission (1)	Proceeds to Company (2)
Per Unit	\$0.01	\$0.001	\$0.009
Minimum	\$ 750,000	\$ 75,000	\$675,000
Maximum	\$1,000,000	\$100,000	\$900,000

- (1) In addition, the Company has agreed to pay Dunhill Investments Ltd. (the "Underwriter") an accountable expense allowance of up to 1% of the public offering price of the Units (\$.0001 per Unit), or \$7,500 if the minimum number of Units is sold or \$10,000 if the maximum number of Units is sold and a non-accountable expense allowance equal to 3% of the public offering price of the Units (\$.0003 per Unit) or \$22,500 if the minimum number of Units is sold or \$30,000 if the maximum number of Units is sold of which any excess over the Underwriter's actual expenses may be deemed additional underwriting compensation. In addition, the Company has agreed to sell to the Underwriter, at \$.00001 cost, warrants to purchase the number of shares of
(footnotes continued on page 2)

The Units offered hereby are offered by the Underwriter on a "best efforts" basis as agent for the Company for a period of 90 days after the date of this Prospectus (which period may be extended for up to an additional 90 days by mutual agreement of the Company and the Underwriter). Unless at least 75,000,000 Units offered hereby are sold, subscriptions will be cancelled and all proceeds will be promptly returned to subscribers in full without interest or deduction of commissions or expenses.

UNTIL THE CONCLUSION OF THE OFFERING, ALL FUNDS RECEIVED WILL BE DEPOSITED IN AN ESCROW ACCOUNT AT CHANCERY NATIONAL BANK, 1120 LINCOLN STREET, DENVER, COLORADO 80203. SEE "UNDERWRITING."



DUNHILL INVESTMENTS LTD
5675 DTC Boulevard, Suite 180
Englewood, Colorado 80111
(303) 740-7707

The date of this Prospectus is April 14, 1986

Common Stock equal to 10% of the number of Units sold and exercisable at a price of \$.013 (30% above the price at which the Units are being sold in the Offering). The Company has agreed to indemnify the Underwriter against certain liabilities, including those under the Securities Act of 1933, as amended. See "UNDERWRITING."

- (2) Before deduction of (a) the Underwriter's accountable and non-accountable expense allowances of a total of \$30,000 if the minimum number of Units is sold or \$40,000 if the maximum number of Units is sold; and (b) other expenses of the Offering estimated at \$95,000 if the minimum number of Units is sold or \$100,000 if the maximum number of Units is sold.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission"), Jacob K. Javits Federal Building, 26 Federal Plaza, New York, NY 10278, a Registration Statement on Form S-18 under the Securities Act of 1933, as amended, (the "Securities Act" or the "Act"), with respect to the Units being offered hereby (the "Offering"). This Prospectus does not contain all of the information set forth in such Registration Statement. For further information with respect to the Company and the securities offered hereby, reference is made to the Registration Statement and to the Financial Statements and Exhibits filed as a part thereof. Statements contained in this Prospectus as to the contents of any contract or other document are not necessarily complete, and, in each instance, reference is made to the copy of such contract or document filed as an Exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. The Registration Statement, including Exhibits thereto, may be inspected without charge at the principal offices of the Securities and Exchange Commission in Washington, D.C. Copies of the Registration Statement, or any part thereof, may be obtained from the offices of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at Jacob K. Javits Federal Building, 26 Federal Plaza, New York, NY 10278, upon payment of the fees prescribed by the Commission.

The Units are offered by the Underwriter and certain dealers, as agents for the Company, on a "best efforts" basis subject to prior sale, to withdrawal, cancellation or modification of the Offering without notice, to delivery and acceptance by the Underwriter and the Company and to certain other conditions. See "UNDERWRITING."

The Company intends to furnish holders of its securities with annual reports containing financial statements of the Company examined by independent public accountants. The Company's accountants for such purposes is Ernst & Whinney. The Company's fiscal year ends on June 30. In addition, the Company may issue unaudited quarterly reports or other interim reports as may be necessary to apprise shareholders of major developments concerning the Company.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFERING OR SOLICITATION IN RESPECT TO THE UNITS OFFERED BY THE COMPANY IN ANY JURISDICTION IN WHICH THE OFFERING OR SOLICITATION IS NOT AUTHORIZED BY THE LAWS THEREOF OR IN WHICH THE PERSONS MAKING THE OFFERING OR SOLICITATION ARE NOT QUALIFIED TO ACT AS THE DEALER OR BROKER OR OTHERWISE TO MAKE SUCH OFFERING OR SOLICITATION.

A SIGNIFICANT AMOUNT OF THE SECURITIES DESCRIBED HEREIN MAY BE SOLD TO CUSTOMERS OF THE UNDERWRITER. SUCH CUSTOMERS SUBSEQUENTLY MAY ENGAGE IN TRANSACTIONS FOR THE SALE AND PURCHASE OF SUCH SECURITIES THROUGH AND/OR WITH THE UNDERWRITER. ALTHOUGH IT HAS NO LEGAL OBLIGATION TO DO SO, THE UNDERWRITER, FROM TIME TO TIME, MAY BECOME A MARKET MAKER AND OTHERWISE EFFECT TRANSACTIONS IN SUCH SECURITIES. THE UNDERWRITER, IF IT PARTICIPATES IN THE MARKET, MAY BE THE DOMINATING INFLUENCE IN THE MARKET, IF ONE DEVELOPS, FOR THE SECURITIES DESCRIBED HEREIN. THE PRICES AND LIQUIDITY OF THE SECURITIES MAY BE SIGNIFICANTLY AFFECTED BY THE DEGREE, IF ANY, OF THE UNDERWRITER'S PARTICIPATION IN SUCH MARKET.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and Financial Statements appearing elsewhere in this Prospectus.

THE COMPANY

Virtusonics Corporation (the "Company"), a Delaware Corporation was formed in July 1985, to arrange for, or engage in, the manufacture, marketing and distribution of certain computer software and other related products for home computer products to be developed and licensed to it by Enhanced Technology Associates, Inc. ("ETA"). ETA is a New York corporation, the controlling shareholder and an affiliate of the Company. The Company intends, in the future, to expand its product line by entering into licenses with unaffiliated entities for the rights to market other computer related products. To date the Company has had limited operations and no revenues.

The Company has certain exclusive rights under a license agreement from ETA to manufacture and market five related products under development and to be developed. The products are VIRTUOSO^R, VIRTUOSO^R PLAY MODE DISKSTM, VIRTUOSO^R MIDI MASTERTM, VIRTUOSO^R MIDI JUNIORTM and the VIRTUOSO^R MAGIC MUSIC BOXTM. See "BUSINESS — Development and License Agreement."

The Company maintains its principal executive offices at 123 and 125 Duke Ellington Boulevard, New York, New York 10025, and its telephone number is 212-316-6945.

THE OFFERING

The Units	100,000,000 units (the "Units"), each Unit consisting of one share of common stock, \$.00001 par value, ("Common Stock") and one redeemable warrant to purchase one share of Common Stock ("Redeemable Warrant" or "Warrant") with the minimum number of Units required for closing being 75,000,000.
The Warrants	exercisable at \$.025 to purchase one share of Common Stock.
Shares Outstanding	
After Offering	315,000,000 shares if the minimum number of Units is sold and 340,000,000 if the maximum number of Units is sold, prior to the exercise of any warrants.
Risk Factors and Dilution	The securities offered hereby involve a high degree of risk and are subject to immediate substantial dilution for investors in the Offering. See "RISK FACTORS" and "DILUTION."

Use of Proceeds (1) The net proceeds to the Company upon completion of the Offering, estimated to be (1) \$578,750 if the minimum number of Units is sold and (2) \$788,750 if the maximum number of Units is sold, will be used as follows:

	<u>If minimum number of Units sold</u>	<u>If maximum number of Units sold</u>
Product development	\$235,000	\$315,000
Repayment of indebtedness	\$175,000	\$175,000
Officer's salaries	\$ 89,000	\$133,000
Sublease Payments	\$ 34,800	\$ 34,800
Manufacturing, advertising and marketing	\$ 25,000	\$100,000
General and administrative	\$ 14,300	\$ 22,000
Working capital	\$ 5,650	\$ 8,950
	<u>\$578,750</u>	<u>\$788,750</u>

SELECTED FINANCIAL INFORMATION

Balance Sheet

	<u>November 30, 1985 (2)</u>
Total Assets	\$128,982
Total Stockholder's (Deficiency)	\$ (24,114)
Working Capital Deficiency	\$ (65,513)

Income Statement

	<u>For the Period from Inception to November 30, 1985</u>
Revenues	\$ -0-
Net Loss	\$(101,264)
Net Loss per share	\$ (.0005)

- (1) After deduction of \$75,000 in underwriting commissions and an estimated \$96,250 remaining to be paid of the estimated \$125,000 in other offering expenses of the Offering if the minimum number of Units is sold. After deduction of \$100,000 in underwriting commissions and an estimated \$111,250 remaining to be paid of the estimated \$140,000 in other offering expenses of the Offering if the maximum number of Units is sold.
- (2) Adjusted to reflect the Company's March 1986 repurchase of 11,500,000 shares of its Common Stock for aggregate consideration of \$115 from certain persons who had purchased the shares prior to November 30, 1985; the Company's March 1986 sale of 11,500,000 shares of its Common Stock for aggregate consideration of \$115; and the Company's April sale of 15,000,000 shares of its Common Stock for aggregate consideration of \$150. See "PRINCIPAL SHAREHOLDERS" and "CERTAIN TRANSACTIONS".

RISK FACTORS

The Securities offered hereby involve a high degree of risk and are therefore speculative in nature and should not be purchased by persons who cannot afford the loss of their entire investment. In analyzing the Offering, prospective purchasers should carefully consider the risk and speculative factors inherent in and affecting the business of the Company and the value of the Units, Common Stock and Redeemable Warrants, including the following:

1. *New Venture; No Operating History and No Revenues.* The Company was recently organized in July 1985 and has had no significant operating history nor any revenues from operations. Further, due to the development stage of the products it anticipates marketing and distributing, the Company anticipates substantial losses in the foreseeable future. The Company is a small new business and is subject to many of the risks common to such businesses including, but not limited to, undercapitalization, cash shortages and lack of market recognition. There is no assurance that the Company will operate profitably in the future. See "FINANCIAL STATEMENTS."

2. *Software Products Under Development.* The software products that the Company intends to market are in the developmental stage and there is no assurance that they can or will be successfully developed. See "BUSINESS — Development and License Agreement."

3. *Development of Software Products by ETA.* The Company is dependent upon the ability of Enhanced Technology Associates, Inc. ("ETA"), the controlling shareholder, an affiliate of the Company and the licensor to the Company of certain rights to certain software, presently under development and to be developed, to successfully complete the development of computer software that will operate on a sufficient universe of computers and attract a sufficient number of purchasers to enable the Company to operate profitably. ETA has limited financial resources. There can be no assurance that ETA will successfully complete the development of such software or if developed, when the development would be completed. See "BUSINESS — Relationship with ETA" and "BUSINESS — Development and License Agreement."

4. *Need For Additional Financing.* The Company will use the proceeds of the Offering primarily for product development, consisting of payments to ETA, for repayment of indebtedness, officer's salaries, sublease payments, manufacturing, advertising and marketing, general and administrative and for working capital. Although the Company believes that the anticipated proceeds from the sale of the minimum number of Units offered hereby will allow it to sustain operations for a period of approximately twelve months from the date hereof, its continued operation following such period or during such period in the event that the proceeds are insufficient to sustain operations during such period, will be dependent upon the availability of positive cash flow from operations or its ability to raise additional funds including proceeds received from the exercise of the Warrants. There can be no assurance that positive cash flow or additional financing would be available to the Company to meet its financial requirements. See "USE OF PROCEEDS" and "BUSINESS."

5. *Relationship with ETA.* Under the terms of the Development and License Agreement, ETA is paid a set fee on a monthly basis to develop computer software products that the Company intends to market. Therefore, ETA may be under an incentive to prolong the period in which it develops the computer software products. This conflicts with the best interests of the Company, as it is to the Company's advantage to receive the products at the soonest possible opportunity. However, once the products are available for sale by the Company, ETA receives a royalty based upon the amount of the sales. See "BUSINESS — Relationship with ETA" and "BUSINESS — Development and License Agreement."

6. *Dependence Upon Key Personnel.* The possible success of the Company is highly dependent upon the personal efforts and abilities of certain of its Directors, officers and employees, particularly the technical expertise of Joseph Lyons, President, Secretary and Director, and Frank Schwartz, Director, the marketing expertise of Jack Godler, Vice President — Marketing, and the business expertise of Richard W. Lewis, Chief Executive Officer and Chief Financial Officer. The unavailability to the Company of Messrs. Lyons, Schwartz, Godler and/or Lewis and other employees of or consultants to the Company could have a material adverse effect upon the Company. See “MANAGEMENT.”

7. *No Patent or Product Protection.* The Company and/or ETA has no patent protection for its existing products or services. While ETA is applying for patent protection, except in unusual circumstances, which may not apply to ETA, application computer software of the type developed, or to be developed, by ETA may not be patentable and, in such event would have to be protected by copyrights, trade secret or contract. ETA intends to file for copyrights on its products, but no assurance can be given that such copyrights will be granted. ETA has registered the trademark “VIRTUOSO” and ETA may further attempt to obtain copyrights, and trademarks and service marks on software or products it subsequently develops. Attempts will also be made to protect software through trade secret and nondisclosure contract provisions in software license agreements and employment agreements. However, certain software can be readily duplicated illegally by anyone having access to the software media and appropriate hardware. Although ETA and the Company have taken normal precautions to protect their software, there can be no assurance that the Company can obtain effective protection against unauthorized duplication of its software or the introduction of substantially similar software. See “BUSINESS — Protection of Intellectual Properties.”

8. *Technological Obsolescence.* The computer software industry as a whole is subject to rapid technological innovation and change, and while management is not presently aware of any technology which would supplant or replace the products the Company intends to manufacture, market and distribute, it is always possible that future technological developments could make the Company's products less competitive or obsolete. See “BUSINESS — Competition.”

9. *Highly Competitive.* The business of marketing and distributing software programs is highly competitive. The Company's competition includes many companies which have far greater capital, management resources, and experience than does the Company. There can be no assurance that the Company will be able to develop or sustain a competitive position in the industry. See “BUSINESS — Competition.”

10. *No Customer Base.* There can be no assurance that the Company will be able to market a sufficient quantity of its product at a price that will allow the operations of the Company to be profitable. See “BUSINESS — Products.”

11. *No Manufacturing Facilities.* The Company has no manufacturing facilities and intends to arrange for and rely on independent manufacturing firms to manufacture, assemble, and package the products licensed by ETA. There can be no assurance that the Company will be successful in arranging for the manufacture, assembly, and packaging of the products, or that any such arrangements will be sufficient to produce the necessary volume of products. See “BUSINESS — Manufacturing and Distribution.”

12. *Royalties And Development Fees Payable to Affiliated Company.* The license agreement between ETA and the Company requires the Company to pay to ETA a royalty of 9% of the gross revenues received with respect to sales of products licensed to the Company. Such royalty is due without regard to the profits or losses of the Company. Further, the Company is required to pay to ETA a royalty of 2% of the Company's pre-tax profits as calculated before payment of any royalties. Additionally, the Company is required to pay to ETA with respect to the agreement the sum of \$15,000 per month for seven months commencing October 1, 1985, and \$25,000 per month thereafter for twenty-four months or until the delivery of the VIRTUOSO MAGIC MUSIC BOX, whichever is earlier. If Virtusonics is in default as to any term of the agreement, including the making of the above payments, ETA may terminate the agreement. See "BUSINESS — Development and License Agreement."

13. *Payment From Proceeds to Principals of the Company.* The Company will pay as salary to three individuals who are considered principals of the Company, the aggregate amount of \$89,000 out of the proceeds of the Offering if the minimum number of Units is sold and \$133,000 out of the proceeds of the Offering if the maximum number of Units is sold. The Company will also pay rental monies in the amount of \$34,800 for a twelve-month period to Joseph Lyons, President of the Company, pursuant to a sublease for the Company's office space. Additionally the Company will pay an aggregate of \$175,000 it owes to certain persons, most of whom are the Company's shareholders, pursuant to Promissory Notes executed by it. Such sums do not include the \$235,000 to be paid to ETA out of the proceeds of the Offering if the minimum number of Units is sold and \$315,000 to be paid to ETA out of the proceeds of the Offering if the maximum number of Units is sold pursuant to the agreement with ETA. In the aggregate, the Company will pay from the Offering to affiliates of the Company approximately 67.2% of the net proceeds if the minimum number of Units is sold and 65.0% if the maximum number of Units is sold. See "USE OF PROCEEDS", "BUSINESS — Development and License Agreement" and "CERTAIN TRANSACTIONS."

14. *Conflicts of Interest.* Two of the three officers and three of the four Directors of the Company are officers, Directors and principal shareholders of ETA, and will devote some of their time to the operations of ETA. ETA may, subject to the rights with respect to certain products and a limited right of first refusal granted to the Company in the Development and License Agreement entered into with ETA, pursue certain opportunities which may be deemed to compete with the Company. Additionally, the Development and License Agreement with ETA may not be deemed an arms-length transaction and may contain terms less favorable to the Company than would an agreement negotiated between the Company and an unaffiliated party. See "CERTAIN TRANSACTIONS"; "BUSINESS — Relationship with ETA"; and "BUSINESS — Development and License Agreement."

15. *Control by Present Shareholders.* The present shareholders of the Company will own a majority of the outstanding Common Stock after the Offering and will therefore be able to elect all of the Company's Directors, and control the Company's affairs and operations. The Company's officers and Directors will own, directly or indirectly, 49.8% if the minimum number of Units is sold and 46.2% if the maximum number of Units is sold of the Company's Common Stock after the Offering and will probably be able to elect the Company's Directors, and control the Company's affairs and operations. See "PRINCIPAL SHAREHOLDERS."

16. *Recent Sales and Issuance of Common Stock at Less Than Public Offering Price.* In August 1985, the Company sold 200,000,000 shares of Common Stock for a total consideration of \$2,000 or

\$.00001 per share to certain persons, including ETA, the controlling shareholder and an affiliate of the Company. Subsequently, certain of such persons sold 17,500,000 shares back to the Company for an aggregate sales price of \$175. In September 1985, the Company sold 25,000,000 shares of Common Stock for a total consideration of \$75,000 or \$.003 per share to certain persons unaffiliated with the Company. In November 1985, the Company sold 10,000,000 shares of Common Stock for a total consideration of \$100 or \$.00001 per share to certain persons in conjunction with their loaning the Company an aggregate of \$100,000 at an interest rate equal to 2% over the applicable prime rate. Subsequently, certain of such persons sold 4,000,000 shares back to the Company for an aggregate sales price of \$40. In March 1986, the Company sold 11,500,000 shares of the Company's Common Stock for a total consideration of \$115. In February and March, 1986, ETA sold an aggregate of 8,000,000 shares of the Company's Common Stock for aggregate consideration of \$80 to certain persons. As additional consideration certain of these persons loaned the Company an aggregate of \$75,000 at an interest rate of 12% per annum. The principal of both loans (\$175,000) is to be repaid from the proceeds of the Offering. In April 1986, ETA sold an aggregate of 5,000,000 shares of the Company's Common Stock for aggregate consideration of \$50 to a consultant to the Company. In April of 1986, the Company sold 15,000,000 shares of its Common Stock for an aggregate consideration of \$150 to an officer of the Company. See "PRINCIPAL SHAREHOLDERS", "CERTAIN TRANSACTIONS" and "USE OF PROCEEDS."

17. *Potential Sales to Current Shareholders and Affiliates.* The Company's Units may be purchased by officers, Directors, their affiliates and associates for the purpose of meeting the minimum number of Units required to be sold by the terms of the Offering. There is no maximum limit as to the amount of such purchases and any such purchases would be for investment purposes and not for resale. Such purchases in a significant amount would increase the present shareholder's majority ownership. See "UNDERWRITING".

18. *Immediate Substantial Dilution.* The Offering involves an immediate substantial dilution in net tangible book value to the public shareholders of \$83.31 if the minimum number of Units is sold and \$78.36 if the maximum number of Units is sold per \$100.00 investment. Further, while immediately after the Offering the public shareholders will have contributed 90.7% of the capital of the Company if the minimum number of Units is sold and 92.8% if the maximum number of shares is sold, the book value of the public shareholders' shares will represent only 23.8% of the total book value of all outstanding shares if the minimum number of Units is sold and 29.4% if the maximum number of Units is sold. See "DILUTION" and "UNDERWRITING."

19. *Determination of Offering Price.* The initial offering price of the Units has been determined between the Company and the Underwriter, and bears no relation to the Company's assets, revenues or any other objective standard of value. Among the factors considered in these negotiations were the lack of operating revenues and operating history of the Company, the proceeds to be raised by the Offering, the experience of the Company's management and the amount of capital necessary to operate the business including the marketing and development of its computer related products.

20. *Absence of Public Market.* There is presently no public market for the Company's Units, Common Stock, or Warrants, and there can be no assurance that a market will develop at the conclusion of the Offering or thereafter. Investors in the Units may therefore incur substantial difficulty in selling their Units, Common Stock or Warrants should they desire to do so. For various reasons, including problems encountered in reselling low-priced securities, investors may incur such difficulty even if a market should develop. Furthermore, it is likely to be difficult for investors to borrow funds using

the Units, Common Stock or Warrants as collateral. The Underwriter is not obligated to create or maintain a market in the Units or the Warrants or the Common Stock upon completion of the Offering. See "UNDERWRITING."

21. *No Dividends.* The Company has not paid dividends on its Common Stock and, for the foreseeable future, the Company does not anticipate that it will pay dividends on its Common Stock. Investors who require dividends from their investments should not purchase Units, Common Stock or Warrants offered hereby. See "DESCRIPTION OF SECURITIES — Common Stock."

22. *Warrants Subject to Redemption.* The Warrants to be issued as part of the Units offered hereby are redeemable at a price of \$.0001 per Warrant at the option of the Company, upon 30 days' notice to the registered holders of the Warrants. The Company may at any time during the exercise period of the Warrants cause such persons to either exercise the Warrants or, upon the payment of \$.0001 per Warrant, lose the right to exercise the Warrants in the future. See "DESCRIPTION OF SECURITIES — Warrants."

23. *Further Dilution.* The Company has agreed to issue, to the Underwriter, for nominal consideration, warrants (the "Underwriter's Purchase Warrants") to purchase shares of Common Stock equal in number to 10% of the Units sold in the Offering. The Underwriter's Purchase Warrants are exercisable for a four-year period commencing twelve months from the effective date, at an exercise price of \$.013 per Share (30% above the initial public offering price for the Units). The Underwriter's Purchase Warrants may be exercised at a time when the Company might be able to obtain additional equity capital on terms more favorable than those provided by such warrants. The Company has also agreed to register the Common Stock issuable upon exercise of such warrants to permit resale. Exercise of such registration rights could involve substantial expense to the Company and may prove to be a hindrance to future financings by the Company. See "UNDERWRITING."

24. *Newly Organized Underwriter.* The Underwriter has been in business as a securities broker-dealer since February 1985. The Underwriter has participated in five public offerings, four of which have been successfully completed as of the date hereof and one of which was terminated unsuccessfully. There is no assurance that the Underwriter will be able to act as a market maker should a market develop. Accordingly, the limited experience of the Underwriter may adversely affect development of any market in the Company's securities. See "UNDERWRITING."

25. *Public will Bear Risk of Loss.* The capital required by the Company to commence operations and carry on its business is being sought primarily from the proceeds of this Offering. Therefore, public investors will bear most of the risk of the Company's losses until such time as it operates profitably, if ever. See "USE OF PROCEEDS."

26. *Shares Available for Future Sale.* All 240,000,000 currently outstanding shares of the Company's Common Stock are "restricted securities" and under circumstances may, in the future, be sold in compliance with Rule 144 adopted under the Securities Act of 1933. Future sales of those shares under Rule 144 could depress the market price of the Common Stock in any market that could develop.

27. *Possible Inability to Exercise Warrants.* Because the Warrants included in the Units offered hereby may be transferred, it is possible that the Warrants could be acquired by persons residing in states where the Company is unable to or does not qualify the shares of Common Stock underlying the Warrants for sale upon exercise. Warrant holders residing in those states would have no choice but to attempt to sell their Warrants or to let them expire unexercised. Also, it is possible that the Company

may be unable, for unforeseen reasons, to cause a Registration Statement covering the shares underlying the Warrants to be in effect when the Warrants are exercisable. In that event the Warrants may expire unless extended by the Company as permitted by the Warrant Agreement because a Registration Statement must be in effect in order for Warrant holders to exercise their Warrants. See "DESCRIPTION OF SECURITIES — Warrants."

28. *Subscriber's Loss of Use of Funds.* If subscriptions for at least 75,000,000 Units are not received prior to the expiration of the term of this Offering, all funds received will be refunded, without interest, to the subscribers. During the 90-day offering period (and a 90-day extension period, if any), subscribers will not have the use of their funds, nor will they earn interest on those funds in the event they are refunded. See "UNDERWRITING."

DILUTION

Dilution is a reduction of the value of a purchaser's investment, measured by the difference between the purchase price and the net tangible book value of the shares after the purchase takes place. The net tangible book value of a share is equal to the shareholders' equity, as shown on the Company's balance sheet, less intangible assets, divided by the number of shares of Common Stock outstanding.

As of November 30, 1985, the Company had issued and outstanding 225,000,000 shares of Common Stock, \$.00001 par value. In March 1986, the Company repurchased 11,500,000 shares of Common Stock for an aggregate consideration of \$115. In March and April 1986, the Company sold 26,500,000 shares of Common Stock at par value or an aggregate of \$265. As of the date hereof, the Company has issued and outstanding, 240,000,000 shares of Common Stock, \$.00001 par value. Based on the 240,000,000 shares of Common Stock outstanding and the November 30, 1985 net tangible negative book value of \$64,114, the net tangible book value per share is approximately (\$.0003). Upon completion of the Offering, without giving any value to the Warrants, if the minimum number of Units is sold, the Company will have an aggregate of 315,000,000 shares of Common Stock outstanding with a net tangible book value of \$525,886 or approximately \$.0017 per share or if the maximum number of Units is sold, the Company will have an aggregate of 340,000,000 shares of Common Stock outstanding with a net tangible book value of \$735,886 or approximately \$.0022 per share. If the minimum number of Units is sold, the public investors will experience an immediate dilution of \$.0083 in the net tangible book value per share of the Common Stock from the \$.01 per share offering price, while current shareholders will receive an immediate increase in the net tangible book value of their Common Stock of \$.0019 per share. If the maximum number of Units is sold, the public investors will experience an immediate dilution of \$.0078 in the net tangible book value per share of the Common Stock from the \$.01 per share offering price, while current shareholders will receive an immediate increase in the net tangible book value of their Common Stock of \$.0024 per share.

Dilution represents the difference between the public offering price and the net tangible book value per share immediately after completion of the public offering. The following table illustrates this dilution on a 10,000 share basis (\$100 investment):

	<u>If minimum number of shares sold</u>	<u>If maximum number of shares sold</u>
Public offering price	\$100.00	\$100.00
Net tangible book value before offering	\$ (2.67)	\$ (2.67)
Increase attributable to payment by public investors....	\$ 19.36	\$ 24.31
Net tangible book value after offering	\$ 16.69	\$ 21.64
Dilution to public investors	\$ 83.31	\$ 78.36

Assuming the sale of the minimum number of Units offered hereby, the following table compares the total number of shares issued by the Company, after adjusting for 15,000,000 shares issued in April 1986, and the total consideration paid:

	<u>Shares Issued</u>	<u>Percent Total Shares</u>	<u>Total Consideration</u>	<u>Percent Total Consideration</u>
Public Shareholders	75,000,000	23.8%	\$750,000	90.7%
Current Shareholders.....	240,000,000	76.2%	\$ 77,150	9.3%
Total	<u>315,000,000</u>	<u>100.0%</u>	<u>\$827,150</u>	<u>100.0%</u>

Assuming the sale of the maximum number of Units offered hereby, the following table compares the total number of shares issued by the Company, after adjusting for 15,000,000 shares issued in April 1986, and the total consideration paid:

	<u>Shares Issued</u>	<u>Percent Total Shares</u>	<u>Total Consideration</u>	<u>Percent Total Consideration</u>
Public Shareholders	100,000,000	29.4%	\$1,000,000	92.8%
Current Shareholders.....	240,000,000	70.6%	\$ 77,150	7.2%
Total	<u>340,000,000</u>	<u>100.0%</u>	<u>\$1,077,150</u>	<u>100.0%</u>

The foregoing figures do not reflect the additional dilution which would occur in the event of the issuance of up to 100,000,000 shares upon the exercise of the Redeemable Warrants or of up to 10,000,000 shares upon the exercise of the Underwriter's Purchase Warrants.

USE OF PROCEEDS

Net proceeds from the sale of the minimum number of Units being offered hereby is estimated to be \$578,750 after deduction of \$75,000 for the underwriting commissions and an estimated \$96,250 remaining to be paid of the estimated \$125,000 in other offering expenses including the Underwriter's expense allowances. Net proceeds from the sale of the maximum number of Units being offered will be approximately \$788,750 after deduction of \$100,000 for the Underwriter's commissions and an estimated \$111,250 remaining to be paid of the estimated \$140,000 in other offering expenses including the Underwriter's expense allowances. The Company intends to use the net proceeds as follows:

	If the minimum number of Units is sold		If the maximum number of Units is sold	
	Amount	%	Amount	%
Product development (1)	\$235,000	40.6%	\$315,000	39.9%
Repayment of indebtedness (2)	175,000	30.2	175,000	22.2
Officers' salaries (3)	89,000	15.4	133,000	16.9
Sublease payments (4)	34,800	6.0	34,800	4.4
Manufacturing, advertising and marketing	25,000	4.3	100,000	12.7
General and administrative	14,300	2.5	22,000	2.8
Working Capital	5,650	1.0	8,950	1.1
Total	<u>\$578,750</u>	<u>100.0%</u>	<u>\$788,750</u>	<u>100.0%</u>

- (1) Product development expenses consist of payments made to ETA pursuant to the Development and License Agreement of \$25,000 per month. Additionally, the Company owes ETA \$15,000 for the month of April 1986. The Company intends to use \$235,000 towards these amounts if the minimum number of Units is sold, or \$315,000 if the maximum number of Units is sold. If the minimum number of Units is sold, ETA has agreed to defer any additional amounts owing for the twelve-month period from the date hereof until the time that such sums are available from cash flow from the operations of the Company.
- (2) The Company will repay an aggregate of \$175,000, \$100,000 of which was loaned to the Company by certain persons pursuant to notes executed by the Company in November 1985. The November notes provide for simple interest per annum equal to 2% in excess of the prime rate of interest charged by the United Bank of Denver. In consideration for loaning these monies, the lenders were allowed to purchase an aggregate of 10,000,000 shares of the Company's Common Stock. The remaining \$75,000 was loaned to the Company by certain persons pursuant to notes executed by the Company in February and March of 1986. The February and March notes provide for simple interest in an amount equal to 12% per annum. In consideration for loaning these monies, the lenders were allowed to purchase from ETA

(footnotes continued on next page)

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an aggregate of 7,500,000 shares of the Company's Common Stock. The aggregate \$175,000 loan proceeds were or will be used as follows:

\$80,000	ETA pursuant to Development and License Agreement
\$17,150	Rental payments to Joseph Lyons, President
\$34,200	Salaries and employee health insurance
\$ 4,500	Equipment
\$ 5,900	Taxes
\$ 5,900	Marketing (tradeshow, etc.)
\$ 6,000	Registration Statement printing costs
\$ 5,000	Blue Sky expenses
\$ 2,500	Due diligence meeting expenses
\$13,850	Working Capital

- (3) Officers salaries are \$50,000 to Richard W. Lewis, \$48,000 to Jack Godler and \$35,000 to Joseph Lyons on an annual basis for the period following the date hereof. Of the proceeds, the Company intends to use \$89,000 if the minimum number of Units is sold and \$133,000 if the maximum number of Units is sold towards these salaries. In the event that the minimum number of Units is sold, Mssrs. Lewis and Lyons have both agreed to defer \$10,000 of their salaries owing for the twelve-month period from the date hereof until the time that such sums are available from cash flow from operations of the Company and Mr. Godler has agreed to defer \$24,000 of his annual salary until the time that such sums are available from cash flow. See "MANAGEMENT — Remuneration."
- (4) Such payments are made to Joseph Lyons, President of the Company, pursuant to a Sublease between Mr. Lyons and the Company in the amount of \$2,900 per month. See "CERTAIN TRANSACTIONS."

The Company believes the proceeds from the sale of the minimum number of Units offered hereby will be sufficient to sustain its operations for a period of twelve months from the date hereof.

CAPITALIZATION

The capitalization of the Company as of November 30, 1985, and as adjusted to give effect to the issuance and sale of securities offered hereby, is as follows:

	Amount Outstanding as of November 30, 1985 (1)	Amount to be Outstanding After Offering	
		Minimum Units Sold	Maximum Units Sold
Commitment (2)			
Notes Payable to Stockholders (3)	<u>\$175,000</u>	<u>—</u>	<u>—</u>
Stockholder's Equity:			
Common Shares, par value \$.00001 per share (500,000,000 shares authorized) (4)	\$ 2,400	\$ 3,150	\$ 3,400
Additional Paid-in Capital	74,750	624,000	833,750
(Deficit)	<u>(101,264)</u>	<u>(101,264)</u>	<u>(101,264)</u>
	<u>\$ (24,114)</u>	<u>\$525,886</u>	<u>\$735,886</u>

- (1) Adjusted to include the Company's March 1986 repurchase of 11,500,000 shares of its Common Stock for aggregate consideration of \$115 from certain persons who had purchased the shares prior to November 30, 1985; the Company's March 1986 sale of 11,500,000 shares of its Common Stock for aggregate consideration of \$115 to certain persons, including Ralph H. Grills, a Principal Shareholder; and the Company's April sale of 15,000,000 shares of its Common Stock for an aggregate consideration of \$150 to Jack Godler, Vice President-Marketing. See "PRINCIPAL SHAREHOLDERS" and "CERTAIN TRANSACTIONS".
- (2) Reference is made to "BUSINESS — Facilities" for information concerning the Company's leasehold obligations.
- (3) Includes \$75,000 borrowed subsequent to November 30, 1985. See "USE OF PROCEEDS".
- (4) Does not include 10,000,000 shares issuable upon exercise of warrants that may be issued to the Underwriter or 100,000,000 shares issuable upon exercise of the Redeemable Warrants offered hereby.

BUSINESS

The Company

Virtusonics Corporation ("the Company") was organized as a Delaware corporation on July 2, 1985, to arrange for or engage in the manufacture, marketing and distribution of certain software and other related products for home computers to be developed and licensed to it by Enhanced Technology Associates, Inc. ("ETA"), the controlling shareholder and an affiliate of the Company. See "BUSINESS — Development and License Agreement." It is the intention of the Company, to expand its product line at sometime in the future by entering into licenses with unaffiliated entities for the rights to market other computer related products, but there can be no assurance that it will be able to do so.

Development and License Agreement

The Company has entered into a Development and License Agreement with ETA with respect to five products under development. The agreement contains no assurances that all of the products will be successfully developed by ETA or, if developed, when they will be completed. The agreement grants the Company the exclusive license, worldwide to manufacture, market and distribute the products when completed. The products are VIRTUOSO®, VIRTUOSO® PLAY MODE DISK™, VIRTUOSO® MIDI MASTER™, VIRTUOSO® MIDI JUNIOR™, and the VIRTUOSO® MAGIC MUSIC BOX™. See "BUSINESS — Products." ETA has made no attempt to manufacture, market or distribute the products. The agreement also provides a right of first refusal to the Company with respect to offers made by third parties to manufacture, market and distribute additional products, if any, developed by ETA which are for use exclusively in the home computer market, and not in the business market. This right of first refusal terminates on September 30, 1995 and applies only when ETA desires to distribute through third parties. ETA may distribute these products on its own. However, ETA has advised the Company that presently, it has neither the capability nor the intent to distribute the products.

Pursuant to the agreement, the Company shall pay ETA a royalty equal to (i) 9% of the gross revenues received by the Company in connection with its use, manufacturing, marketing and subleasing of the products, plus (ii) 2% of the Company's net profits, before taxes. In addition to the royalty, the Company is to pay with respect to the license, the sum of \$15,000 per month for seven months commencing October 1, 1985 and \$25,000 per month thereafter for 24 months or until the delivery of the VIRTUOSO MAGIC MUSIC BOX, whichever is earlier. Additionally, ETA is expected to benefit from knowledge gained in the process of developing the products.

Pursuant to the agreement, ETA disclaims all warranties, express or implied, and all liability in connection with the delivery, use or performance of the products, for consequential, exemplary or incidental damages. ETA further limits its liability to the Company for all claims of any kind arising out of the agreement (except for claims regarding the infringement or patent, copyright or other proprietary rights) to the total amount of royalties paid by the Company to ETA under the agreement during the twelve months immediately preceding the date the first claim arose.

ETA is not limited or restricted from developing new products, whether or not based on the concepts, techniques, know-how or technology contained in the five products being licensed to the Company or from marketing or otherwise exploiting such products provided that, if they do so through third parties, they are subject to the Company's right of first refusal noted above.

The Development and License Agreement may be terminated by ETA if (i) the Company has not received \$575,000 by sale of equity or other financing by the termination of the offering period, (ii) the Company fails to cure a material breach of the agreement after thirty (30) days' written notice thereof or (iii) the Company ceases to conduct business in the normal course of events, becomes insolvent, or is otherwise the subject of a proceeding under any law relating to bankruptcy, insolvency or the protection of creditors.

The foregoing is not a complete description of all the details of the Development and License Agreement between the Company and ETA, a copy of which has been filed with the SEC as an exhibit with the Registration Statement in connection with the Offering. In view of the relationship between the Company and ETA, the Development and License Agreement may not be deemed to be an arms-length transaction and may contain terms differing from those that might be contained in a development and license agreement between non-affiliated entities.

Relationship with ETA

ETA, a New York corporation, was organized in December 1984 by Joseph Lyons, President and a Director of the Company, Frank Schwartz, a Director of the Company and Richard W. Lewis, Chairman of the Board, Chief Financial Officer and a Director of the Company for the purpose of engaging in research and development begun by Messrs. Lyons and Schwartz in 1978 with respect to various technologies for the representation, control, analysis and reproduction of audio information in both digital and analog formats. The Company was organized in July 1985 by ETA and others to arrange for, and to engage in, the manufacture, marketing and distribution of certain products to be developed by ETA and others. Three of the Company's four directors are also directors of ETA, which has one additional director. Two of the three officers of the Company are also officers of ETA. Richard W. Lewis, Chairman of the Board, Chief Executive Officer, Chief Financial Officer and Treasurer of the Company, is the Chairman of the Board and Chief Executive Officer of ETA and Joseph Lyons, President, Secretary and a Director of the Company is the President, Secretary and a Director of ETA. Pursuant to their employment agreements with the Company, the two common officers may devote such time as they deem advisable to ETA, but both are obligated to devote a minimum of thirty hours per week to the Company. See "BUSINESS — Employees" and "BUSINESS — Management."

The Company and ETA each occupies space at 123-125 Duke Ellington Boulevard, New York, New York, pursuant to subleases from Joseph Lyons. The rental charged to each is the amount of rent charged to Mr. Lyons under his leases with the landlord. However, Mr. Lyons resides in such occupied space at no cost to him. See "BUSINESS — Facilities."

Prior to this offering ETA owned approximately 51.9% of the Company's issued and outstanding Common Stock. If the Offering is completed and prior to exercise of the warrants, ETA will own approximately 39.5% of the Common Stock if the minimum number of Units is sold and 36.6% of the Common Stock if the maximum number of Units is sold. See "PRINCIPAL SHAREHOLDERS."

Industry Background

A home computer is a computer designed to be used at home and not for commercial, industrial or military applications. The Company has been informed by certain persons in the computer industry and believes that in 1984, there were approximately ten million home computers in the United States, approximately a total of 4,500,000 of which were sold by the Atari Corp. and Commodore Electronics Ltd. and are compatible with the Company's products. Because of the quantity of home computers, a significant market for home computer software has been created. In the competition for a share of the general software market, various manufacturers have developed software in several different areas (e.g. accounting, word processing, graphics, etc.). However, because research and development has been concentrated on products for commercial use, there has been little emphasis on the home computer market. Thus, while software has been created for office and commercial use which offers word processing programs or data bases with graphics and spread sheet capabilities as an integrated system, there are fewer and less sophisticated products available for home use. Software products that offer some integration for the home computer market are available but are moderately expensive and do not offer the variety of functions and capability available in commercial products. It is anticipated that the demand for home computers and accessories will create a demand for more sophisticated software, requiring integration of several functions. Over the last several years, manufacturers' attempts to create more versatile integrated software systems for home users have accelerated but the Company does not believe that such attempts have yielded products comparable to the Company's products. See "BUSINESS — Products" and "BUSINESS — Competition."

Existing Software

Generally, the home computer user desiring to utilize the equipment for a variety of functions is currently required to purchase individual software packages for each task. For example, if the user wanted to design a graphic display as well as work on the word narrative to accompany the graphics, the user must change disks in order to work on the word narrative. An integrated operating system allowing a variety of operating modes within the same package has generally eluded the home computer market. While many manufacturers offer products that combine multiple functions, such products would probably not be considered operating systems integrating such diverse functions as music, graphics animation, text editing and telephone communication. However, the Company believes that its controlling shareholder and affiliate, ETA, has designed such an integrated system.

Products

With the exception of the VIRTUOSO® MAGIC MUSIC BOX™, design has been completed and development is currently being pursued on all of the products described below. Although no assurance can be given that all of these products will be successfully developed or, if developed, as to the date they could be available, management anticipates that VIRTUOSO® and the VIRTUOSO® PLAY MODE DISK™ will be available for sale in July 1986, and VIRTUOSO® MIDI MASTER™ and VIRTUOSO® MIDI JUNIOR™ six months later. Development of the VIRTUOSO® MAGIC MUSIC BOX™ is expected to be completed within two years of the date of this Prospectus. There can be no assurance that design of such products will be completed or that the Company will be able to have any of the products manufactured or that the Company will be able to market them in sufficient quantities or at prices that allow the Company to be profitable.

VIRTUOSO® . VIRTUOSO is a multi-purpose, disk-based software language and operating system which can be used to compose, edit and play music, create and edit graphics and animations, write and edit text and control telephone communications to enable the user to send and receive multi-media compositions from and to home computers utilizing telephone modems. VIRTUOSO is a word, music and graphic software language with operating system environment and control language. The basis of the VIRTUOSO system is the control capabilities of its proprietary software. The user can draw pictures on the TV monitor and move them around through VIRTUOSO animation control. For example, the user could draw a scene of the moon moving across the sky over water using VIRTUOSO animators to make both the water and the moon move. VIRTUOSO can instruct the host computer to automatically convert the user's graphics into music, and can also create graphic pictures from the user's music.

The Company believes that VIRTUOSO is a new concept for looking at and controlling the activity of music. Through the application of real-time moving color graphics, elements of musical composition, e.g. notes, rhythms, tone quality, speed, volume, scale, can be displayed and edited immediately, either in traditional music notation or in VIRTUOSO's color language. Access to VIRTUOSO software can be made through the standard home computer keyboard and through the joystick ports of the home computer. The Company believes that the system would be enhanced by having a joystick, touch tablet or other input device with the ability to provide access to the diverse functions of the VIRTUOSO software.

VIRTUOSO will be provided to the user on a floppy disk and is designed for home, educational, institutional, and professional use. The Company expects to offer modifications of VIRTUOSO to accommodate new developments in the consumer, educational and professional markets.

VIRTUOSO® PLAY MODE DISK™. The Company, pursuant to the Development and License Agreement and as a supplement and introduction to the VIRTUOSO software, will produce and distribute a series of VIRTUOSO PLAY MODE DISKS which will contain various musical compositions with animated graphics, playable on any Atari* 800, 800XL, 65XE or 130XE or Commodore* 64 or 128 home computer. The VIRTUOSO PLAY MODE DISKS will be created using the VIRTUOSO format and will have the same color displays and sound possibilities as the VIRTUOSO software. The VIRTUOSO PLAY MODE DISKS will contain arrangements of various styles of musical compositions for user playback. The material on these disks will be derived from popular, classical and original selections.

The owners of the Atari or Commodore home computer will be able to purchase VIRTUOSO PLAY MODE DISKS for their listening and viewing pleasure and will have access to the features of the VIRTUOSO language to control only the playback parameters of these disks. While VIRTUOSO software is not required for VIRTUOSO PLAY MODE DISKS playback, users of the VIRTUOSO software will be able to utilize the full range of the software to explore, edit, and rearrange all of the compositions in the VIRTUOSO PLAY MODE DISK library.

Each VIRTUOSO PLAY MODE DISK will contain about one hour of data for listening and viewing. At this time, it is anticipated that separate disks will be used for various kinds of music (e.g., rock, popular, classic, baroque, and original).

VIRTUOSO® MIDI MASTER™. The majority of manufacturers of synthesizers and synthesizer keyboards are now providing access to their devices through a standardized set of electronic control protocols known as the Musical Instrument Digital Interface ("MIDI"). ETA has designed and presently has under development proprietary hardware that will provide cable interface and digital protocol between the host computer and external synthesizers utilizing MIDI. The combination of the VIRTUOSO software and the VIRTUOSO MIDI hardware into a product named the VIRTUOSO MIDI MASTER will enable certain computers to interact with synthesizers. The user can compose and edit on the computer, and use the computer to control up to 16 independent synthesizers with VIRTUOSO software.

The VIRTUOSO MIDI MASTER will provide the music industry with a computer interface for composing and editing music. The features of the VIRTUOSO software will be available through the user's Atari, Commodore and some computers manufactured by Apple for controlling a variety of external synthesizers. The Company anticipates developing a later version which will most likely be applicable to the IBM and IBM compatible computers. The graphic capabilities of the VIRTUOSO software will provide the user with a real-time color visualization of the music it creates, while the editing features of the VIRTUOSO software will be available for the musician in both live and studio environments.

The VIRTUOSO MIDI MASTER will be developed to operate in the Atari 130XE and the Commodore 128 and certain computers manufactured by Apple, IBM and IBM compatibles. VIRTUOSO MIDI MASTER will also be designed to operate with the Atari 520ST or Commodore Amiga if, in the opinion of the Company, a sufficient market develops for these computers. The Company anticipates that the market for VIRTUOSO MIDI MASTER will be amateur and professional musicians, composers and recording studios.

* The names Atari and Commodore are the registered trademarks of Atari Corp. and Commodore Electronics Limited. The numbers and letters represent certain trademarks of computer models manufactured by them or their affiliates and sold to the public and are proprietary to such companies. Neither of such companies is affiliated with either the Company or ETA.

VIRTUOSO MIDI JUNIOR. A less powerful version of the VIRTUOSO MIDI MASTER will be developed for applications using the Atari 800XL and 65XE and the Commodore 64 computers. The VIRTUOSO MIDI JUNIOR will have the same basic structure as the VIRTUOSO MIDI MASTER for control of external synthesizers, but it will be scaled down for these less powerful home computers. MIDI JUNIOR will interface VIRTUOSO through ATARI, COMMODORE and Apple computers to MIDI accessible synthesizers. There will be a "blackbox" device utilizing 16 channel MIDI protocol.

THE VIRTUOSO® MAGIC MUSIC BOX™. The Company anticipates that an additional product, the VIRTUOSO MAGIC MUSIC BOX, will contain its own sound and graphic generation chips and will provide capabilities for 16 channels of audio output, high resolution graphics, text editing and telecommunications while the personal computer with which it will interface will be employed for access to disks used for storage and retrieval. The Company anticipates that VIRTUOSO MAGIC MUSIC BOX will provide the capability to use the VIRTUOSO software with a broad range of existing computers, including those manufactured by IBM, Apple, AT&T, Tandy, Atari, Commodore, Compaq, and other PC-compatible models.

The Company expects that the sound quality of VIRTUOSO MAGIC MUSIC BOX will be comparable to that of currently existing synthesizers. The Company intends to develop a series of highly specialized VIRTUOSO PLAY MODE DISKS for use in conjunction with the VIRTUOSO MAGIC MUSIC BOX, each disk containing a number of complete musical compositions with the capacity to rearrange or otherwise change the musical scores as the user may desire while retaining the original score.

Marketing

Currently, home computer software is sold principally by computer manufacturers, computer stores, department stores, discount stores and mail order retailers.

The Company has targeted individuals who are (a) believed to possess appropriate computers and (b) likely to be interested in using the VIRTUOSO software capabilities. The Company expects to contact such individuals through direct marketing and promotional efforts, including demonstrations of the products in concerts given to the public and to certain identified "user" groups. For example, the Company intends to initially target ATARI and COMMODORE home computer owners for the marketing of VIRTUOSO® PLAY MODE DISKS and VIRTUOSO® software by utilizing the Bulletin Board Systems, including Compuserve, Delphi and the Atari Worldwide User Network, and four or five established computer user magazines, including *Antic*, *Compute*, *Run* and *Byte*. The Company believes that in the event that ATARI and/or COMMODORE cease manufacturing a material portion of their home computer products, there exists a significant market in current ATARI and/or COMMODORE users. Further, some of the products will be compatible with Apple, IBM and other existing home personal computers. However, either ATARI or COMMODORE ceasing to manufacture home computer products would adversely affect the Company's sales potential.

In addition to home entertainment and educational applications, the Company believes a market for the Company's products will exist with musicians, composers, recording studios and educational institutions. The Company intends to reach these markets by building and utilizing a sales force and through the use of marketing representatives.

Contracts

As of the date hereof, the Company does not have any contracts for sales or delivery of its products.

Competition

Many manufacturers currently have products with either individual or combinations of capabilities similar to some of the capabilities of the Company's products and would therefore be considered directly competitive to the Company. Some competing music products are Bank Street Music Writer, Advanced Music Systems I and II and Atari Music Construction Set. Some competing graphics products are Micro-painter, Graphics Master and Visualizer. Some competing word processing products are Paper Clip and Letter Perfect. A competing animation product is Movie Maker. A competing telecommunications product is Homepak. Most of the manufacturers with which the Company competes and will compete possess far greater financial resources, manpower, name recognition and marketing channels than does the Company, and there is no assurance that the Company will be able to successfully compete with such manufacturers.

While, the Company believes that the VIRTUOSO line of products if and when completed, (a) will possess unique capabilities of composing and editing music, (b) will be the only software that can produce separately or in various combinations graphics, text, animation, music compositions, sound and supporting telecommunications within a single system operable through a comparatively small computer and (c) will be less expensive than purchasing several independent packages to achieve some or all of what the VIRTUOSO line of products can provide, technological change in these areas is rapid and it is unknown how long it might be before directly competitive products might appear.

Research and Development

The Company at present has no research and development department and has spent no funds directly in this area since inception. It is anticipated that, for the foreseeable future, all design, development and product improvement will be done by its controlling shareholder and affiliate, ETA. The Company is not permitted, without prior written approval of ETA, to make modifications, updates or enhancements to the products. The Company pays ETA certain amounts pursuant to a licensing agreement. See "BUSINESS — Development and License Agreement."

Protection of Intellectual Properties

The Company has been advised that ETA plans to apply for a patent or patents to protect its rights to the VIRTUOSO software and related products, but no assurance can be given that such patents will be granted. In the interim, the Company and ETA are treating all proprietary materials as a trade secret, and each employs and will continue to employ procedures, techniques and contractual arrangements to protect such confidential matters. Nevertheless, no assurance can be given that such secrets can be maintained, or that competitors through reverse engineering or other means may not develop access to confidential aspects of the Company's products.

Management of ETA or the Company also plan, as appropriate, to register copyrights for the software programs and firmware components.

ETA has a registered trademark for VIRTUOSO and it plans to apply for registration of trademarks for all of its products at appropriate times. No assurance can be given that the applications for such registration will be granted.

Facilities

The Company subleases space from Joseph Lyons, President and a Director of the Company, approximately 2,500 square feet of space located at 123 and 125 Duke Ellington Boulevard, New York, New York, at a rental of \$34,800 annually. The principal offices of ETA are located at the same address. See "CERTAIN TRANSACTIONS."

Employees

The Company currently employs four persons on a substantially full-time basis, two of whom are officers and Directors of the Company and are also officers and Directors of ETA and one of whom is also an officer of the Company. The two employees of both ETA and the Company have employment contracts with the Company, pursuant to which they are permitted to devote some time to the business of ETA. All four employees are obligated to devote a minimum of 30 hours weekly to the Company. See "MANAGEMENT — Employment Agreements." The Company has never experienced a work stoppage and none of its employees are represented by a labor union.

LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings, and to its knowledge, no such proceedings are contemplated or threatened.

MANAGEMENT

Directors and Executive Officers. The current Directors and officers of the Company are listed below with their ages and positions.

<u>Name</u>	<u>Age</u>	<u>Position in Company</u>
Richard W. Lewis*	43	Chief Executive Officer; Chairman of the Board of Directors; Chief Financial Officer and Treasurer
Joseph Lyons*	40	President, Secretary and Director
Jack Godler	54	Vice President-Marketing
Frank Schwartz*	33	Director
Charles H. Reddien	41	Director

* May be deemed to be "parents" or "promoters" of the Company, as those terms are defined in the Securities Act of 1933, as amended. See "CERTAIN TRANSACTIONS."

The Company has purchased and is the beneficiary of key-man life insurance covering Richard W. Lewis, Joseph Lyons and Frank Schwartz in the amount of \$500,000 each.

Directors hold office until the next annual meeting of the shareholders of the Company and until their successors are duly chosen and qualified. Officers are elected by the Board of Directors.

Richard W. Lewis has a B.S. Degree in General Business and an M.B.A. in Finance from New York University. Prior to March 1981 Mr. Lewis was employed at Crocker National Bank as an Assistant Vice-President. From April 1981 to November 1982, Mr. Lewis served as the head of the Leverage Acquisition Team at The Chase Manhattan Bank, N.A., a division that he had initiated. From November 1982 to November 1983, he started and served as Marketing Manager of Asset-Based Financing in the Retail Finance Department of General Electric Credit Corporation. From November 1983 to June 1985, Mr. Lewis served as a consultant to various clients with respect to venture capital, leverage acquisitions and financial affairs. In November 1984 Mr. Lewis became a partner in Enhanced Technology Associates Partnership and in December 1984 was elected Chairman of the Board of Directors and Chief Executive Officer of ETA, the successor company of the partnership and an affiliate and controlling shareholder of the Company. He was elected Chairman of the Board of Directors and Chief Executive Officer of the Company in August 1985 and Chief Financial Officer and Treasurer of the Company in December 1985. Mr. Lewis devotes a minimum of thirty hours weekly to the affairs of the Company.

Joseph Lyons has a Masters of Music Degree from The Juilliard School and a Master of Arts Degree in Musicology/Theory from Queens College of the City University of New York. Mr. Lyons has performed as a conductor at, and was a member of the faculties of The Juilliard School from 1965 to 1968 and from 1970 to 1973 and the City University of New York from 1968 to 1973. From 1978 to July 1985, Mr. Lyons devoted his full time to the affairs of ETA and its predecessor entities. See "BUSINESS — Relationship with ETA." In December 1984, Mr. Lyons was elected President and a Director of ETA, an affiliate and the controlling shareholder of the Company. Mr. Lyons was elected President and a Director of the Company in August 1985 and Secretary in December 1985. Mr. Lyons devotes his full time to the affairs of ETA and the Company with a minimum of thirty hours weekly being devoted to the Company.

Jack Godler has a M.A. in political science from the University of Chicago and a B.A. from Brooklyn College. From 1965 to 1976 Mr. Godler was employed by *Newsweek* magazine where he became Sales Promotion Manager. From October 1976 to December 1978 he was Creative Director, Ad Sales Promotion for *Playboy* magazine. In January 1979 he established Jack Godler Associates to render marketing and promotional services primarily to the media. During the period from January 1979 to April 1983, Jack Godler Associates provided services to *Science 80-83* magazine, *The Sporting News* magazine, *Sport* magazine, *Psychology Today* magazine and *Working Woman* magazine. In April 1983 he founded *Computer Advertising News* magazine and served as its editor-publisher until it was sold in May 1985. From June 1985 to the present, Mr. Godler has served as a marketing and advertising consultant to The Information Industry Association and to *Instructor* magazine. In June 1985 Mr. Godler prepared advertising and promotional material for Microlog, a computer board firm. In July 1985 Mr. Godler prepared advertising and promotional material for BrainBank, an educational software firm. In September 1985 Mr. Godler was consultant to VNU publishing (Amsterdam, The Netherlands). Since November 1985, Mr. Godler has been a consultant to Univex, a sales, marketing and purchasing organization. In his capacity as consultant to these firms, Mr. Godler has developed marketing strategies, devised promotion tactics and produced the plans, ads, brochures and presentations relating thereto. On April 9, 1986 Mr. Godler was elected Vice President — Marketing of the Company.

Frank Schwartz was employed by Digital Equipment Corporation from December 1972 to November 1977 where he designed various operating systems for the PDP-11 minicomputer. From December 1977 to February 1979 Mr. Schwartz was employed by Automated Concepts Inc. where he participated in its design and implementation of process control and robotics systems. From March 1979 to September 1980 Mr. Schwartz was employed by Insac Viewdata, Inc., the U. S. subsidiary of Prestel, Ltd., U.K., where he designed and implemented a microprocessor system for Teletex editing and retrieval. Mr. Schwartz became an independent consultant for software engineering and systems consulting in September 1980. Mr. Schwartz acted as consultant to Johnson & Johnson, Dental Products Division until July 1981. During this period, Mr. Schwartz also consulted for Fiduciary Trust Company from October 1980 through February 1981, and Memorial Sloan Kettering Cancer Center from November 1980 through March 1985. Other than the foregoing, from 1978 to the present, Mr. Schwartz has devoted his full time to the affairs of ETA and its predecessor entities. See "BUSINESS — Relationship with ETA." In December 1984, Mr. Schwartz was elected Vice-President and a Director of ETA, an affiliate and the controlling shareholder of the Company. Mr. Schwartz was elected a Director of the Company in August 1985.

Charles H. Reddien has been Chairman of the Board of Kalamath Group, a company with holdings in the field of natural resources, since February 1985. Mr. Reddien has been Chairman of the Board of Heritage Group Ltd., a financial holding company, since June 1984 and has been Chairman and Chief Executive Officer of A.B. James and Associates, Inc., an investment banking concern, since June 1985. Mr. Reddien was founder, managing partner and Chief Executive Officer of J.W. Gant & Associates, an Investment Banking Partnership from January 1984 to January 1985 and was a Registered Representative at that time. Mr. Reddien was President and Director of Orchard Group, Ltd., an investment banking holding company and J.W. Gant and Associates, Inc., an investment banking firm, from December 1982 to January 1984. He served as Chairman and President of The Heritage Group, Inc., an investment banking holding company, and was President and Secretary of Plans and Assistance, Inc., a management consulting firm from June 1982 to January 1984. Mr. Reddien was a special consultant to the partners of OTC Net, Inc., investment bankers, from January 1981 to June 1982. OTC Net, Inc. ceased doing business on June 2, 1982. As a result of his affiliation, Mr. Reddien, together with all other principals and registered representatives of OTC Net, Inc., had his license suspended by the Division of Securities for the State of South Dakota on July 26, 1982 and revoked on September 14, 1982. He served as Project Manager and Data Processing Systems Manager with Hughes Aircraft Company from 1966 to 1981. He was in private law practice from 1972 through 1980 in California and Colorado, specializing in corporate and computer law. He co-authored the legal sections of "Software Engineering", published by the Prentice-Hall Publishing Company. He is listed in the *Who's Who of American Law*, 2nd and 3rd editions and *International Who's Who of Contemporary Achievement*. Mr. Reddien received his BS degree in Electrical Engineering from the University of Colorado, a Masters degree in Electrical Engineering from the University of Southern California and a Juris Doctorate from Loyola University School of Law.

Neither Mr. Reddien nor any firm with which he is affiliated will participate in the distribution.

Remuneration

No officer, Director or Group was paid more than \$50,000 during the last fiscal year. Richard W. Lewis has entered into an Employment Agreement whereby he will receive \$50,000 per year as salary. Joseph Lyons has entered into an Employment Agreement whereby he will receive \$35,000 per year as salary. Additionally, Mr. Lyons resides at the premises leased from him by the Company and thereby receives additional compensation valued at \$3,240 per year. Mr. Godler has entered into an Employment

Agreement whereby he will receive \$48,000 per year as salary, was permitted to purchase 15,000,000 shares of the Company's Common Stock at \$.00001 per share and will be paid commissions of up to 4% of sales of VIRTUOSO software. Based upon the difference between the price paid for the shares Mr. Godler purchased and the public offering price of \$.01 per Unit, these shares have a potential unrealized value of \$149,850 as of the date of this Prospectus and without giving any value to the Warrants. Under certain circumstances, including the termination of his employment, the Company has the option to repurchase some of these shares. The aggregate salaries to be paid to the executives as a group is \$133,000 and the aggregate compensation to be received by the executives is \$283,090 plus any amounts received by Mr. Godler as commissions.

Employment Agreements

Richard W. Lewis. The Company entered into an employment agreement with Richard W. Lewis, Chief Executive Officer, Chairman of the Board, Chief Financial Officer and Treasurer, effective October 1, 1985 and expiring on December 31, 1987. Pursuant to the contract Mr. Lewis will devote a minimum of 30 hours per week to the performance of his duties as designated by the Board of Directors and will receive a salary of \$50,000 per year. Any salary increase or bonus granted would be at the discretion of the Board of Directors. Other than through his affiliation with ETA, Mr. Lewis has agreed, for the period of the term of his Employment Agreement and for one year after termination of such employment, not to enter into certain activities which are deemed to compete with the products of Virtusonics. Mr. Lewis has also agreed not to in any way or at any time, without the prior written approval of the Company, divulge the confidential information of the Company.

Joseph Lyons. The Company entered into an employment agreement with Joseph Lyons, President, Secretary and a Director, effective October 1, 1985 and expiring on December 31, 1987. Pursuant to the contract Mr. Lyons will devote a minimum of 30 hours per week to the performance of his duties as designated by the Board of Directors and will receive a salary of \$35,000 per year. Any salary increase or bonus granted would be at the discretion of the Board of Directors. Other than through his affiliation with ETA, Mr. Lyons has agreed, for the period of the term of his Employment Agreement and for one year after termination of such employment, not to enter into certain activities which are deemed to compete with the products of Virtusonics. Mr. Lyons has also agreed not to in any way or at any time, without the prior written approval of the Company, divulge the confidential information of the Company.

Jack Godler. The Company entered into an employment agreement with Jack Godler, Vice President — Marketing, on April 9, 1986 and expiring December 31, 1988. Pursuant to the contract Mr. Godler will devote a minimum of 30 hours per week to the performance of his duties as designated by the Board of Directors. Mr. Godler will receive a salary of \$48,000 per year, has been permitted to purchase 15,000,000 shares of the Company's Common Stock at \$.00001 per share and will be paid commissions of up to four percent of sales of VIRTUOSO software. In certain circumstances, including the termination of his employment, the Company has the option to repurchase certain of the shares of stock sold to Mr. Godler at \$.00001 per share. Any salary increase or bonus granted would be at the discretion of the Board of Directors. Pursuant to the contract, Mr. Godler has agreed, for the period of the term of his Employment Agreement and for one year after termination of such employment, not to enter into certain activities which are deemed to compete with the products of Virtusonics. Mr. Godler has also agreed not to in any way or at any time, without the prior written approval of the Company, divulge the confidential information of the Company.

Consulting Agreement

The Company has entered into a one-year Consulting Agreement with Howard Bronson & Company, Inc. The agreement provides that Howard Bronson & Company, Inc. will provide the services of financial public relations manager for the Company. As compensation, Howard Bronson & Company, Inc. was allowed to purchase 5,000,000 shares of the Company's Common Stock at \$.00001 per share from ETA, controlling shareholder and an affiliate of the Company. As additional compensation, the Company will pay the sum of \$2,500 per month during the one-year period.

1985 Incentive Stock Option Plan

The Company adopted the 1985 Incentive Stock Option Plan (the "ISO Plan") on August 12, 1985, reserving 10,000,000 shares of Common Stock for option and sale. The ISO Plan provides for the grant of "incentive stock options" within the meaning of Section 422A of the Internal Revenue Code of 1954, as amended, (the "Code") to key employees. In the event that no trading market exists at the time the options are granted, the Board of Directors of the Company will determine the fair market value of the Company's Common Stock. The exercise price of incentive stock options granted under the ISO Plan may not be less than the fair market value of the Common Stock of the Company on the day of grant, except that such price may not be less than 110% of such fair market value for options granted to employees who own stock possessing at least ten percent of the voting power of all stock of the Company. The fair market value of stock for which an employee may be granted incentive stock options in any calendar year may not exceed \$100,000 plus certain carryover amounts from prior years. No options have been granted as of the date hereof.

CERTAIN TRANSACTIONS

Messrs. Richard W. Lewis, Joseph Lyons and Frank Schwartz, directors and/or officers of the Company, are also shareholders of Enhanced Technology Associates ("ETA"), which holds 124,500,000 shares of the Company's Common Stock purchased for cash in an amount equal to \$.00001 per share in August 1985. ETA shares represent 51.9% of the outstanding Common Stock prior to the Offering and 39.5% of the Common Stock assuming the sale of the minimum number of Units pursuant to the Offering and 36.6% of the Common Stock assuming the sale of the maximum number of Units pursuant to the Offering. By virtue of their ownership of ETA's common stock and ETA's ownership of the Company's Common Stock and/or their management positions and organizational efforts, Messrs. Lewis, Lyons and Schwartz and ETA may be deemed to be "parents" and "promoters" of the Company as those terms are defined in the Act, and the regulations thereunder. Additionally, Messrs. Lewis, Lyons and Schwartz will devote some of their time to the operations of ETA. See "MANAGEMENT" and "PRINCIPAL SHAREHOLDERS." ETA had purchased an additional 13,000,000 shares of the Company's Common Stock at \$.00001 per share in August 1985. In February and March 1986, it sold 8,000,000 shares of the Company's Common Stock at \$.00001 per share to certain persons, some of whom loaned the Company \$75,000 at 12%. This loan will be repaid from the proceeds of the Offering. Additionally, ETA sold 5,000,000 shares of the Company's Common Stock to Howard Bronson and Company, Inc. pursuant to a Consulting Agreement in April 1986. See "Use of Proceeds."

With respect to the March loan, Ralph Grills, Jr., a principal shareholder, was paid \$4,000 for his services rendered as a finder. Ralph H. Grills purchased 8,500,000 shares and 2,500,000 shares in private transactions for \$.00001 per share in November 1985. Mr. Grills purchased an additional 1,000,000 shares from the Company for \$.00001 per share and in consideration of his loaning the Company \$10,000 in November 1985. Mr. Grills purchased an additional 3,000,000 million shares from the Company in March 1986 for consideration of \$.00001 per share. See "PRINCIPAL SHAREHOLDERS."

In August 1985, Charles H. Reddien, Director of the Company, and his wife, P. Gayle Reddien, purchased an aggregate of 17,500,000 shares of the Company's Common Stock at a price of \$.00001 per share. See "PRINCIPAL SHAREHOLDERS."

ETA may, subject to the rights with respect to certain products and a limited right of first refusal granted to the Company in the Development and License Agreement entered into with ETA, compete with the Company. Further, the Development and License Agreement may not be deemed an arms-length transaction and may contain terms less favorable to the Company than would an agreement negotiated between the Company and an unaffiliated party. See "BUSINESS — Development and License Agreement."

The Company subleases approximately 2,500 square feet located at 123 and 125 Duke Ellington Boulevard, New York, NY 10025 from Joseph Lyons, President, Secretary and a Director of the Company. Pursuant to its lease, the Company pays to Mr. Lyons an amount equivalent to that amount Mr. Lyons pays pursuant to his primary lease for that square footage. Mr. Lyons resides in such occupied space at no cost to him. See "BUSINESS — Facilities."

In November 1985 the Company sold 10,000,000 Shares of its Common Stock to certain persons at \$.00001 per share and in consideration of the purchasers of those shares loaning the Company an aggregate of \$100,000. See "USE OF PROCEEDS" and "PRINCIPAL SHAREHOLDERS."

In April 1986 the Company sold 15,000,000 Shares of its Common Stock to Jack Godler, an officer of the Company, at \$.00001 per share. See "PRINCIPAL SHAREHOLDERS."

PRINCIPAL SHAREHOLDERS

The following table sets forth the holdings of Common Stock by each person who, as of the date of this Prospectus, holds of record or is known by the Company to own beneficially more than 5% of the outstanding Common Stock of the Company, by each Director and by all officers and Directors as a group.

Name and Address of Beneficial Owner	Title of Class	Amount and nature of beneficial Ownership	Percentage of Class of Shares Outstanding		
			Prior to Offering	After Offering of	
				Minimum Number	Maximum Number
Enhanced Technology Associates, Inc. (1) 125 Duke Ellington Boulevard New York, NY 10025	Common	124,500,000	51.9%	39.5%	36.6%
Jack Godler (2) 226-10 137th Avenue Laurelton, NY 11413	Common	15,000,000	6.2%	4.8%	4.4%
Ralph H. Grills (3) 1888 South Jackson Denver, CO 80210	Common	15,000,000	6.2%	4.8%	4.4%
Charles H. Reddien (4) 7734 So. Elm Ct. Littleton, CO 80122	Common	17,500,000	7.3%	5.5%	5.2%
Officers and Directors as a Group (five persons)	Common	157,000,000	65.4%	49.8%	46.2%

- (1) Two of the three officers and three of the four Directors of the Company are principal shareholders of ETA which owns 124,500,000 of the Common Stock of the Company and such persons are therefore deemed to be the beneficial owners of such stock.
- (2) Jack Godler purchased 15,000,000 shares of the Company's Common Stock from the Company at \$.00001 per share in April 1986. Under certain circumstances, including the termination of Mr. Godler's employment, the Company has the option to repurchase certain of these shares at \$.00001.
- (3) Ralph H. Grills purchased 8,500,000 shares and 2,500,000 shares in private transactions for \$.00001 per share in November 1985. Mr. Grills purchased an additional 1,000,000 shares from the Company for \$.00001 per share and in consideration of his loaning the Company \$10,000 in November 1985. Mr. Grills purchased an additional 3,000,000 million shares from the Company in March 1986 for consideration of \$.00001 per share.
- (4) Charles H. Reddien is shown to be the beneficial owner of the 6,000,000 shares owned by his wife, P. Gayle Reddien.

DESCRIPTION OF SECURITIES

Units

The Units being offered hereby consist of one share of Common Stock and one Redeemable Warrant to purchase one share of Common Stock. The Common Stock and Redeemable Warrant will not be separately transferable prior to one hundred and eighty-one days from the date of this Prospectus or such earlier date as the Underwriter may determine but not earlier than July 14, 1986. The Transfer Agent for the Units, Common Stock and Redeemable Warrants is Corporate Stock Transfer, Inc.

Common Stock

The Company is authorized to issue 500,000,000 shares of Common Stock, par value \$0.00001 per share, of which 240,000,000 shares are currently issued and outstanding. Holders of Common Stock are entitled to one vote for each share of Common Stock held by them at all meetings of shareholders, including meetings to elect Directors. The Common Stock is not entitled to conversion or preemptive rights and is not subject to redemption. Upon any liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share pro rata in the assets of the Company available for distribution.

The outstanding shares of Common Stock and the Common Stock offered hereby upon the completion of the Offering are fully paid and non-assessable.

Non-Cumulative Voting. The shares of Common Stock of the Company are not entitled to cumulative voting rights, which means that the holders of more than fifty percent of the outstanding Common Stock will have the ability to elect all of the Directors of the Company, and in such event the holders of the remaining shares will not be able to elect any of the Directors. Upon completion of the Offering, the present shareholders of the Company will own, of the then outstanding Common Stock of the Company, approximately 76.2% if the minimum number of Units is sold and approximately 70.6% if the maximum number of Units is sold (exclusive of any Common Stock represented by exercise of the Warrants) and will probably have the ability to elect the Directors of the Company.

Dividends. The Company has not paid any dividends on its Common Stock. The Board of Directors of the Company presently intends to use earnings, if any, to finance development and operations of the Company for other corporate purposes and does not anticipate declaring any dividends on its Common Stock in the foreseeable future.

Redeemable Warrants

The Redeemable Warrants will be issued pursuant to the terms of a Warrant Agreement dated as of the closing of the sale of at least 75,000,000 Units (the "Warrant Agreement") between the Company and the Warrant Agent, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part. The following is a summary statement of the terms of the Warrants and does not purport to be complete and is qualified in its entirety by reference to the Warrant Agreement.

Each Redeemable Warrant is exercisable to purchase one share of Common Stock beginning October 14, 1986, or such earlier date as the Underwriter may determine but not earlier than July 14, 1986 at \$.025 per share. The Redeemable Warrants and shares of Common Stock shall not be separately transferrable until such date. Unless exercised or redeemed, the Redeemable Warrants will automatically expire October 14, 1987.

The Warrants are redeemable, during the exercise period, by the Company at a price of \$.0001 per Redeemable Warrant upon 30 day's notice to the registered holder, regardless of the price at which the Common Stock is then trading.

While the Redeemable Warrants do contain some general antidilution provisions, they do not contain provisions protecting against dilution resulting from the sale of additional Common Stock at a price less than the exercise price of the Redeemable Warrants. In the event of the complete liquidation and dissolution of the Company, the Redeemable Warrants terminate. Holders of Warrants do not have any voting or other rights as shareholders of the Company and are not entitled to dividends.

UNDERWRITING

Summary of Underwriting Agreement

Effective the date of this Prospectus the Company will have entered into an Underwriting Agreement ("Agreement") with Dunhill Investments Ltd. (the "Underwriter"). Pursuant to the terms of the Agreement, the Underwriter has agreed to use its best efforts to sell, at \$.01 per Unit, the 100,000,000 Units offered by this Prospectus, within a period of ninety days after the date hereof, which period may be extended additional periods not to exceed a total of ninety days upon mutual agreement between the Company and the Underwriter (the "Offering Period"). If at least 75,000,000 Units are subscribed for within the Offering Period, an additional 25,000,000 Units will be offered during such period on a "best efforts" basis until all such shares are sold, until the Underwriter terminates the Offering, or until the Offering Period expires, whichever first occurs.

If the Underwriter is unable to sell at least 75,000,000 Units within the Offering Period, then the Offering will terminate and all money will be returned to the subscribers, without interest or deduction for commissions or other expenses relating to the Offering. All funds received by the Underwriter will be transmitted promptly, pursuant to the terms of an escrow agreement, to the Chancery National Bank, 1120 Lincoln Street, Denver, Colorado. Purchasers of the Units will not receive stock certificates or warrants unless and until the funds are released from escrow. During the period of escrow, subscribers will have no right to demand return of their subscriptions. The Underwriting Agreement and Offering may be terminated by the Underwriter by notice to the Company at any time prior to the Closing if, in the sole judgment of the Underwriter, the sale, payment for or delivery of the Units is rendered impractical or inadvisable for any reason.

Subject to the sale of at least 75,000,000 Units prior to the termination of this Offering, the Company has agreed to pay the Underwriter a sales commission of 10% of the Offering price (\$.001 per Unit) of the number of Units sold. The Company also has agreed to pay to the Underwriter a nonaccountable expense allowance of \$22,500 if the minimum number of Units is sold and \$30,000 if the maximum number of Units is sold, computed on the basis of 3% of the gross proceeds from the sale of Units, and an additional expense allowance of up to \$7,500 if the minimum number of Units is sold and \$10,000 if the maximum number of Units is sold, computed on the basis of 1% of such gross proceeds on an accountable basis for certain of the Underwriter's expenses. Of the expense allowance, \$10,000 has been paid to the Underwriter. The remainder will be paid upon the release of the funds by the escrow agent. The Underwriter's expenses in excess of the stated expense allowance will be borne by the Underwriter. To the extent that the expenses of the Underwriter are less than the stated expense allowance, the difference shall be deemed to be compensation to the Underwriter in addition to the stated sales commission.

Subject to the sale of at least 75,000,000 Units, the Underwriter has the right to purchase from the Company, for \$.00001 each, warrants ("Underwriter's Warrants") to acquire one share for every ten Units sold by the Company in the Offering or 7,500,000 shares if the minimum number of Units is sold and 10,000,000 shares if the maximum number of Units is sold. Such Underwriter's Warrants may be considered additional compensation to the Underwriter. See "UNDERWRITING — Underwriter's Warrants."

The Underwriter may offer the Units through securities dealers who are members of the National Association of Securities Dealers, Inc. ("NASD") and may reallocate such portion of the 10% commission as the Underwriter may determine. The Underwriter does not intend to sell any Units offered hereby to any account over which it has discretionary authority.

The Company and the Underwriter have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The Company has agreed with the Underwriter that, if at least 75,000,000 Units are sold, it will cause a Registration Statement to be filed under the Securities Exchange Act of 1934, as amended, within a period of 30 days after the successful completion of this Offering, and use its best efforts to cause the same to become effective.

All Officers and Directors, and other holders of the Company's outstanding stock prior to this Offering have entered into an agreement with the Underwriter that they will not sell their respective shares without approval of the Underwriter for a period of twenty-four months from the date of this Prospectus.

The foregoing does not purport to be a complete statement of the terms and conditions of the Agreement, copies of which are on file at the offices of the Underwriter and the Company and may be examined there during regular business hours.

Underwriter's Warrants

Subject to the sale of at least 75,000,000 Units prior to the termination of this Offering, the Company has agreed to sell to the Underwriter, for \$.00001 each, warrants to purchase one share for every ten Units sold by the Company in this Offering (the "Underwriter's Warrants"). The Underwriter's Warrants will not be exercisable, transferable or assignable for a period of one year following the effective date hereof, except that they will be transferable and assignable to and among officers of the Underwriter, dealers that participate in the Offering and their officers and partners, and by operation of law. After such one-year period, the Underwriter's Warrants will be exercisable, assignable and transferable for a period of four years and exercisable at a price of \$.013 for each share underlying such warrants.

The Company has agreed that, upon the written request of the holder(s) of at least 50% of the Underwriter's Warrants and the Common Stock issued upon the exercise of such warrants ("Warrant Stock") made at any time within the period commencing one year after the date of this Prospectus and ending five years after the date of this Prospectus, the Company will file, not more than once, a post-effective amendment to this Registration Statement, a new registration statement, or a notification on Form 1-A under the Securities Act of 1933, as amended, registering or qualifying, as the case may be, the shares of Common Stock underlying the Underwriter's Warrants. The Company has agreed to use its best efforts to cause the filing to become effective. All expenses of such registration or qualifications, including, but not limited to, legal, accounting, state and federal filing fees, and the cost of printing prospectuses, will be borne by the Company, which could be a substantial cost to the Company.

In addition, the holders of the Underwriter's Warrants will be entitled, commencing one year after the date of this Prospectus and ending seven years after the date of this Prospectus, at no cost to them, to include all or any portion of the shares of the Company's Common Stock issued upon exercise of the Underwriter's Warrants in any registration statement filed by the Company in which such stock could be included.

In addition, the Company will cooperate with the then holders of the Underwriter's Warrants and Warrant Stock in preparing and signing one Registration Statement or Notification on Form 1-A, in addition to the Registration Statements and Notifications discussed above, required in order to sell or transfer the shares of Warrant Stock and will supply all information required therefor, but such additional Registration Statement or Notification shall be at the then holders' cost and expense unless the Company elects to register or qualify additional shares of the Company's Common Stock in which case the cost and expense of such Registration Statement or Notification will be prorated between the Company and the holders of the Warrant Stock according to the aggregate sales price of the securities being sold by each.

Holders of the Underwriter's Warrants are protected against dilution of the equity interest represented by the underlying shares of Common Stock upon the occurrence of certain events, including, but not limited to, recapitalizations and sales of additional stock at prices below the exercise price of the Underwriter's Warrants. In the event of liquidation, dissolution, or winding up of the Company, holders of the Underwriter's Warrants are not entitled to participate in the Company's assets. If the Company liquidates, merges, or reorganizes in such a way as to terminate the Underwriter's Warrants, such warrants may be exercised immediately prior to such action.

Any gain realized by the Underwriter on any resale of the Underwriter's Warrants and/or underlying securities may be deemed additional underwriting compensation.

Newly Organized Underwriter

The Underwriter is recently organized and did not commence business operations until February 1985. This Offering is the sixth public Offering to be offered by the Underwriter, four of which have been successfully completed as of the date hereof and one of which was terminated unsuccessfully. The principals of Dunhill Investments Ltd., the Underwriter, have substantial experience in the securities business but no assurance can be given that the Underwriter successfully will complete the Offering.

Management of the Company may provide the Underwriter with a list of persons who management believes may be interested in purchasing Units in the Offering. The Underwriter may sell a portion of the Units to any such person who resides in a state where the Units can be sold. The Underwriter is not obligated to sell any Units to any such person and will do so only to the extent that such sales would not be inconsistent with the public distribution of the Units and that such sales would be on the same terms as all other sales made pursuant to the Offering. Officers, Directors and affiliates of the Company may purchase Units for the purpose of meeting the number of Shares required to be sold by the terms of the Offering. Any purchases by such persons would be for investment and not for resale. There is no maximum number of Shares which may be purchased by persons whose names are furnished by the Company. There is no present commitment from any such person to purchase any Shares.

LEGAL MATTERS

The firm of Weil & Moody, 383 Lafayette Street, Suite 304, New York, New York 10003 has acted as Counsel to the Company. David A. Weil and Martha A. Moody, partners in such firm own, respectively, 5,666,667 and 2,500,000 shares of Common Stock. Meyers Tersigni Kaufman Lurie Feldman & Gray, 630 Third Avenue, New York, N.Y. 10022 has acted as Special Counsel to the Company with regard to intellectual properties and licensing matters. Both law firms also perform legal services for ETA.

Burns, Wall, Smith and Mueller, 303 E. 17th Avenue, Suite 800, Denver, Colorado 80203 has acted as counsel for the Underwriter in connection with the Offering.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

Audited Financial Statements
November 30, 1985

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Ernst & Whinney

153 East 53rd Street
New York, New York 10022

212/888-9100

Board of Directors and Shareholders
Virtusonics Corporation
New York, New York

We have examined the balance sheet of Virtusonics Corporation, a development stage corporation, as of November 30, 1985 and the related statements of operations, stockholders' deficiency and changes in financial position for the period from July 2, 1985 (inception) through November 30, 1985. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note A, the Company's ability to commence its proposed operations and operate as a going concern is contingent upon the successful completion of the initial public offering of stock contemplated by the Company, the availability of cash flow from operations and/or the obtaining of additional financing. The financial statements referred to above have been prepared on a going-concern basis which contemplates realization of assets and liquidation of liabilities in the ordinary course of business. The financial statements do not include any adjustments related to the recoverability of recorded asset amounts or the amounts of liabilities that might be necessary should the Company be unable to operate as a going concern.

In our opinion, subject to the effects of such adjustments, if any, as might have been required were the Company unable to conclude its public offering of stock and obtain additional financing, the aforementioned financial statements present fairly the financial position of Virtusonics Corporation as of November 30, 1985 and the results of its operations and changes in its financial position for the period from July 2, 1985 (inception) through November 30, 1985, in conformity with generally accepted accounting principles.

ERNST & WHINNEY

New York, New York
December 10, 1985, except for
Notes F(1) and F(2), as to which the dates are
March 27, 1986 and April 9, 1986, respectively

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

BALANCE SHEET
November 30, 1985

ASSETS

CURRENT ASSETS

Cash	\$ 47,413
Subscription receivable — Note E	20,020
Royalty advanced to stockholder — Notes B and D	20,000
TOTAL CURRENT ASSETS	87,433

OTHER ASSETS, including deferred registration statement

expenses of \$40,000	41,399
	<u>\$128,832</u>

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES

Accrued expenses and sundry liabilities	\$ 53,096
Notes payable/stockholders — Note E	100,000
TOTAL CURRENT LIABILITIES	153,096

STOCKHOLDERS' DEFICIENCY — Note C

Common Stock, \$.00001 par value, 500,000,000 shares authorized, 225,000,000 shares issued and outstanding	2,250
Additional paid-in capital	74,750
(Deficit) — accumulated during the development stage	(101,264)
	(24,264)

COMMITMENTS AND OTHER COMMENTS AND

SUBSEQUENT EVENTS — Notes D and F

\$128,832

See notes to financial statements.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

STATEMENT OF OPERATIONS

For the Period from July 2, 1985 (Inception) through November 30, 1985

Development and license fees — Note D	\$ 30,000
General and administrative expenses	<u>71,264</u>
NET (LOSS), representing deficit at end of period	<u>\$(101,264)</u>
(Loss) per share	<u>\$ (.0005)</u>

See notes to financial statements.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

STATEMENT OF STOCKHOLDERS' DEFICIENCY
For the Period from July 2, 1985 (Inception)
through November 30, 1985

	<u>Common Shares</u>	<u>Amount (\$.00001 Par Value)</u>	<u>Additional Paid-In Capital</u>	<u>(Deficit)</u>
Issuance of shares for cash on				
August 9, 1985	200,000,000	\$2,000		
Issuance of shares for cash on				
September 16, 1985	25,000,000	250	\$74,750	
Issuance of shares for cash in				
November 1985 — Note E	10,000,000	100		
Repurchase of shares on				
November 30, 1985	(10,000,000)	(100)		
Net (loss)				\$(101,264)
Balance November 30, 1985	<u>225,000,000</u>	<u>\$2,250</u>	<u>\$74,750</u>	<u>\$(101,264)</u>

See notes to financial statements.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Period from July 2, 1985 (Inception)
through November 30, 1985

APPLICATION OF FUNDS

Operations:	
Net loss	\$101,264
TOTAL FOR OPERATIONS	101,264
Other assets	41,399
	<u>142,663</u>

SOURCE OF FUNDS

Proceeds from issuance of common stock	77,000
WORKING CAPITAL APPLIED	<u>\$ 65,663</u>

CHANGES IN COMPONENTS OF WORKING CAPITAL

Cash	\$ 47,413
Subscription receivable	20,020
Royalty advanced to stockholder	20,000
Accrued expenses and sundry liabilities	(53,096)
Notes payable/stockholders	<u>(100,000)</u>

WORKING CAPITAL APPLIED, representing working capital deficiency at end of period	<u>\$ (65,663)</u>
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See notes to financial statements.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

NOTES TO FINANCIAL STATEMENTS
November 30, 1985

Note A — Organization, Public Offering and Going Concern

The Company was organized as a Delaware corporation on July 2, 1985, to arrange, as a licensee pursuant to a licensing agreement (see Note D), for the manufacture, marketing and distribution of certain computer software and other related products under development and to be developed by Enhanced Technology Associates, Inc. ("ETA"), the controlling shareholder of the Company. ETA owns approximately 60% of the outstanding common stock of the Company. Officers and certain directors of the Company are officers, directors and principal shareholders of ETA.

The Company intends to use the proceeds of the initial public offering ("Offering") contemplated by this prospectus for product development, repayment of indebtedness and for working capital. Although the Company believes that the anticipated proceeds from the contemplated Offering will allow it to sustain operations for a period of approximately twelve months from the date of sale of the securities being offered, its continued operation following such period, or during such period in the event that the proceeds are insufficient to sustain operations during such period, will be dependent upon the availability of positive cash flow from operations or its ability to raise additional financing. There can be no assurance that positive cash flow or additional financing would be available to the Company to meet its financial requirements.

Note B — Significant Accounting Policies

Development Stage Enterprise: The efforts of the Company since inception have been devoted to financial planning, raising capital and development of marketing strategies. No revenues have been derived from operations. Accordingly, the financial statements are presented in accordance with guidance given by Financial Accounting Standards Board Statement No. 7, "Accounting and Reporting by Development Stage Enterprises."

Deferred Registration Statement Expenses: Upon successful completion of an initial public offering, additional paid-in capital will be reduced by the registration statement expenses. If the offering is not successfully completed, the registration statement expenses will be charged to operations.

(Loss) Per Share: (Loss) per share is based on the weighted average number of common shares outstanding during the period (approximately 225,000,000 shares), after giving effect to the issuance of 15,000,000 shares in April 1986. See Note F(2).

Note C — Stockholders' Deficiency

The Company has adopted an incentive stock option plan ("the Plan") whereby options to purchase an aggregate of 10,000,000 shares of the Company's common stock may be granted to key employees, as defined. The exercise price of the options granted under the Plan may not be less than the then fair market value of Company's common stock on the date of grant. No options have been granted under the Plan.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

NOTES TO FINANCIAL STATEMENTS — Continued

Note D — Commitments and Other Comments

Pursuant to the licensing agreement referred to in Note A, the Company, beginning in October 1985, is required to pay to ETA \$15,000 a month for 7 months and \$25,000 a month thereafter for 24 months, or until certain products are developed, whichever comes first. In addition, the Company is required to pay ETA a royalty of 9% of its gross sales, and 2% of its pretax profits, both as defined. In connection with the agreement, the Company has advanced ETA \$20,000 representing an advanced royalty payment.

The Company has employment agreements with two officers who are also officers and directors of ETA. The agreements require that annual salaries of \$85,000 be paid to these employees through December 31, 1987. (See Note F(2)).

On October 1, 1985 the Company subleased office space from the president of the Company. The sublease requires monthly payments of approximately \$3,000 through September 30, 1986.

Note E — Notes Payable

In November 1985, the Company issued \$100,000 of promissory notes together with 10,000,000 shares of common stock for total proceeds of \$100,000. The notes bear interest at 2% above a prime rate as defined, with principal and accrued interest due on the earlier of May 31, 1986 or the date the Company receives proceeds of at least \$575,000 from the sale of its stock and warrants. The notes and stock have been recorded at their estimated fair market values. At November 30, 1985 the Company had not received \$20,020 representing the proceeds from the issuance of 2,000,000 shares of stock and \$20,000 of notes. Such proceeds which were received in December 1985 have been recorded as a subscription receivable.

Note F — Subsequent Events

(1) In February and March 1986, the Company borrowed \$75,000 and issued promissory notes. In connection therewith, the noteholders purchased 7,500,000 shares of the Company's outstanding common stock from ETA. The principal amount of the notes, which bear interest of 12% (payable quarterly), are due, as to \$35,000 of notes, in one year from their issuance and, as to \$40,000 of notes, on the date the Company receives proceeds of at least \$575,000 from the sale of its stock and warrants.

(2) In April 1986, the Company entered into the following agreements:

a. An employment agreement with an officer which provides, among other matters, for an annual base salary of \$48,000. In connection therewith, the officer purchased 15,000,000 shares of the Company's common stock for \$150.

b. A one year consulting agreement with a public relations firm which provides for a monthly fee of \$2,500 (aggregating \$30,000) for services to be rendered by the consultant. The agreement commences upon the successful completion of the initial public offering contemplated by this prospectus. In connection therewith, the consultant purchased 5,000,000 shares of the Company's common stock from ETA.

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NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS. ANY INFORMATION OR REPRESENTATIONS NOT HEREIN CONTAINED, IF GIVEN OR IF MADE, MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITER.

UNTIL JULY 13, 1986 (90 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED COMMON STOCK TO WHICH THIS PROSPECTUS RELATES, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A CURRENT PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF THE DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITER AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

**100,000,000 Units
Each Unit Consisting of
One Share of Common Stock
And One Redeemable Warrant
to Purchase One Share
of Common Stock**



PROSPECTUS



DUNHILL INVESTMENTS LTD
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April 14, 1986